

Chapter II

CalPERS California Initiative

Introduction

In 1990, the CalPERS Investment Committee established the Alternative Investment Management (AIM) program to specialize in private equity investments, and today CalPERS is one of the largest private equity investors in the world. The goal of the AIM program is to “capitalize on marketplace opportunities in order to achieve superior risk-adjusted returns.” Consistent with this goal, in 2001 the CalPERS Investment Committee established, and the AIM team implemented, the California Initiative to invest private equity in “traditionally underserved markets, primarily, but not exclusively in California.”¹

The California Initiative was initially launched with a capital commitment of \$475 million to nine private equity funds and one fund-of-funds. This initial allocation is known as Phase I. In October 2006, CalPERS made a second allocation, a \$500 million capital commitment managed by Hamilton Lane, a leading private equity investment manager. CalPERS and Hamilton Lane established an investment vehicle known as the Golden State Investment Fund (GSIF), which seeks to invest in both partnerships and direct co-investments primarily in California. CalPERS commitment to GSIF was later increased to a total of \$550 million.² As of June 30, 2010, through GSIF, Hamilton Lane had invested in 14 private equity funds and made 14 direct co-investments.

The primary objective of the California Initiative — comprising both Phase I and GSIF — is to generate attractive financial returns, meeting or exceeding private equity benchmarks. As an ancillary benefit, the California Initiative was designed to create jobs and promote economic opportunity in California. To determine the extent of the ancillary benefits, CalPERS measures the impact of the program in the following areas:

- Portfolio companies that traditionally have had limited access to institutional equity capital
- Portfolio companies that employ workers living in economically disadvantaged areas
- Portfolio companies that provide employment opportunities to women and minority entrepreneurs and managers

This report focuses on the ancillary benefits derived from the total commitment of Phase I and GSIF allocations of the California Initiative.

CalPERS and Hamilton Lane engaged Pacific Community Ventures (PCV), a leader in measuring and interpreting community outcomes of private equity investments, to collect, analyze, and report on the California Initiative’s ancillary benefits. PCV has collected and analyzed data from California Initiative portfolio companies for the last six years, beginning with Phase I in 2005.

Highlights

Since the inception of the California Initiative in 2001, 399 companies have received investment through both Phase I (284 companies) and GSIF (115 companies). Of the 284 companies in Phase I, 162 companies have received funding through a \$100 million separate fund-of-funds account, called the Banc of America California Community Venture Fund (BACCVF). BACCVF reports the community benefits derived from its fund-of-funds in a separate document — please see the addendum on page 52. Except where otherwise noted, this report focuses on data provided by 141 active Phase I (43) and GSIF (98) portfolio companies (excluding BACCVF) as of June 30, 2010.³

Profile

Since the inception of the California Initiative, 208 companies (89 percent) have provided data in at least one of the annual collection efforts. Net employment growth since investment in the 208 portfolio companies is 9 percent in California and less than one percent overall (in California and throughout the United States). The 141 active portfolio companies that provided data for this assessment show employment growth of 10 percent in California and 3 percent overall since initial investment.

California Initiative portfolio companies are considered “California Companies” if any of the following are true:⁴

- Company headquarters are in California
- More employees reside in California than in any other state
- More facility locations are in California than in any other state

Thirty-three (77 percent)⁵ Phase I and 82⁶ (84 percent) GSIF portfolio companies are considered “California Companies,” representing 74 percent of dollars (39 percent of Phase I dollars and 94 percent of GSIF dollars).

California Initiative Key Milestones ⁷ (Excluding BACCVF)

Total Dollars Committed to the California Initiative	\$925 million ⁸
Total Number of Companies Receiving Investment	237 ⁹
Percent of Companies Headquartered in California	77%
Net New Jobs ¹⁰ Since Investment in California (all companies ever in portfolio)	1,919
Total Employment at Active Portfolio Companies	68,293
Percent of Employees Living in Low and Moderate Income Areas (based on ZIP Code only) ¹¹	73%
Percent of Portfolio Company Employees Eligible for Medical Coverage ¹²	83%

Portfolio Companies That Have Historically Had Limited Access to Equity Capital

Between 2001 and 2007, more than 80 percent of all private equity in the United States and more than 90 percent of all private equity in California was invested in areas comprising 774 United States ZIP codes (2 percent of all U.S. ZIP codes), 153 of which are California ZIP codes (3 percent of all California ZIP codes). California Initiative portfolio companies located outside of this area are considered to be in an area that has historically had limited access to institutional equity capital.

Across California, only 25 percent of all companies receiving private equity investment are in areas that have historically had limited access to institutional equity capital. By contrast, 45 percent of all California Initiative companies — including more than 30 percent of Phase I companies (or 27 percent of invested capital) and more than 50 percent of GSIF companies (or 57 percent of invested capital) — are in areas that have historically had limited access to institutional equity capital, indicating that the initiative's efforts to direct capital to these areas is working.

Portfolio Companies That Employ Workers Living in Economically Disadvantaged Areas

Active California Initiative portfolio companies employ more than 68,000 workers. Many of these workers come from economically disadvantaged areas. Approximately 47 percent of California Initiative portfolio company employees in California live in predominantly low-income areas.¹³

Fifty-two percent of GSIF portfolio company employees are considered low-to-moderate income (LMI) workers, based on an analysis of both employee wage and residence location.¹⁴ Combined, these statistics indicate that the California Initiative is fulfilling its mission to provide employment opportunities to disadvantaged workers.

Portfolio Companies That Provide Employment Opportunities to Women and Minority Entrepreneurs and Managers

When private equity dollars are invested in a company, the ownership often shifts from individuals to a fund, or group of funds. Given that ownership is transferred at the time of investment, the number of current female and minority officers (e.g., Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer) is used as a proxy to better understand the proportion of women and minority entrepreneurs in portfolio companies.

Thirty-three percent of Phase I investment dollars and 47 percent of GSIF dollars are committed to 40 companies where there is at least one female officer, and 49 percent of Phase I investment dollars and 68 percent of GSIF dollars are committed to 45 companies with at least one minority officer. As company officers, these women and minorities have substantial input into the management and growth of these companies.

As a frame of reference, the proportion of women and minority executives at California Initiative companies is greater than the proportion of comparable businesses in the United States that are women or minority-owned. At California Initiative portfolio companies, 13 percent of officers are women and 12 percent are minorities, compared with 10 percent of similar United States businesses that are women-owned, and 6 percent that are minority-owned.¹⁵

Profile – California Initiative Companies

Since the inception of the California Initiative, 399 companies have received investment through both Phase I (284 companies) and GSIF (115 companies). Of the 284 companies in Phase I, 162 companies have received funding through a \$100 million separate fund-of-funds account allocated to the Banc of America California Community Venture Fund (BACCVF). Except where otherwise noted, this report focuses on data provided by 141 active Phase I and GSIF portfolio companies (excluding BACCVF) as of June 30, 2010.¹⁶ BACCVF reports the community benefits derived from its fund-of-funds separately — please see the addendum on page 52.

As of June 30, 2010, private equity funds that received capital through the California Initiative had active investments

in 146 companies—45 in Phase I and 101 in GSIF. Between July 1, 2009 and June 30, 2010, 14 companies that received investment from Phase I partners and four companies that received investment from GSIF partners exited the portfolio, bringing the number of fully realized investments over the life of the California Initiative to 87. Of the 237 companies that have received investment throughout the life of the California Initiative, 208 (88 percent) provided data for this report at some point during investment. One-hundred-forty-one active companies (97 percent) provided data as of June 30, 2010, including 43 Phase I portfolio companies (96 percent) and 98 GSIF portfolio companies (97 percent).

California Initiative Portfolio Investments (Excluding BACCVF)

	Phase I	GSIF	Total California Initiative
Received Investment	122	115	237
Active Companies <i>(as of June 30, 2010)</i>	45 (37%)	101 (88%)	146 (62%)
Fully Realized <i>(as of June 30, 2010)</i>	77 (63%)	10 (9%)	87 (37%)
Active Companies, Contributed Data 2010	43 (96%)	98 (97%)	141 (97%)
All Companies Ever Reporting, Including Fully Realized Investments	104 (85%)	104 (90%)	208 (88%)

Employment and Employment Growth

The rate of employment growth at California Initiative companies exceeds the employment growth rate across the United States and California. Since 2005, 104 Phase I and 104 GSIF portfolio companies have contributed data to at least one assessment effort.

At time of investment, these 208 California Initiative portfolio companies employed a total of 110,658 employees, including 21,502 Californians. The most recent data available from these companies shows overall employment holding steady (108 net new jobs) and growth of 9 percent in California (1,919 net new jobs) since investment.

Overall employment at active Phase I companies has decreased 3 percent (418 net job losses); while California employment has increased 80 percent (1,023 net new jobs). By comparison, employment in the United States and California decreased 3 percent and 5 percent, respectively, between 2001 and 2010.¹⁷

The first GSIF portfolio company investment was made in 2007. By June 30, 2010, GSIF managers had closed investments in 115 companies.¹⁸ At time of investment, the 98 active GSIF portfolio companies that provided data employed 53,862 workers, and as of June 30, 2010, that number had grown 4 percent, to 56,123, far surpassing

Employees, California Initiative Portfolio Companies

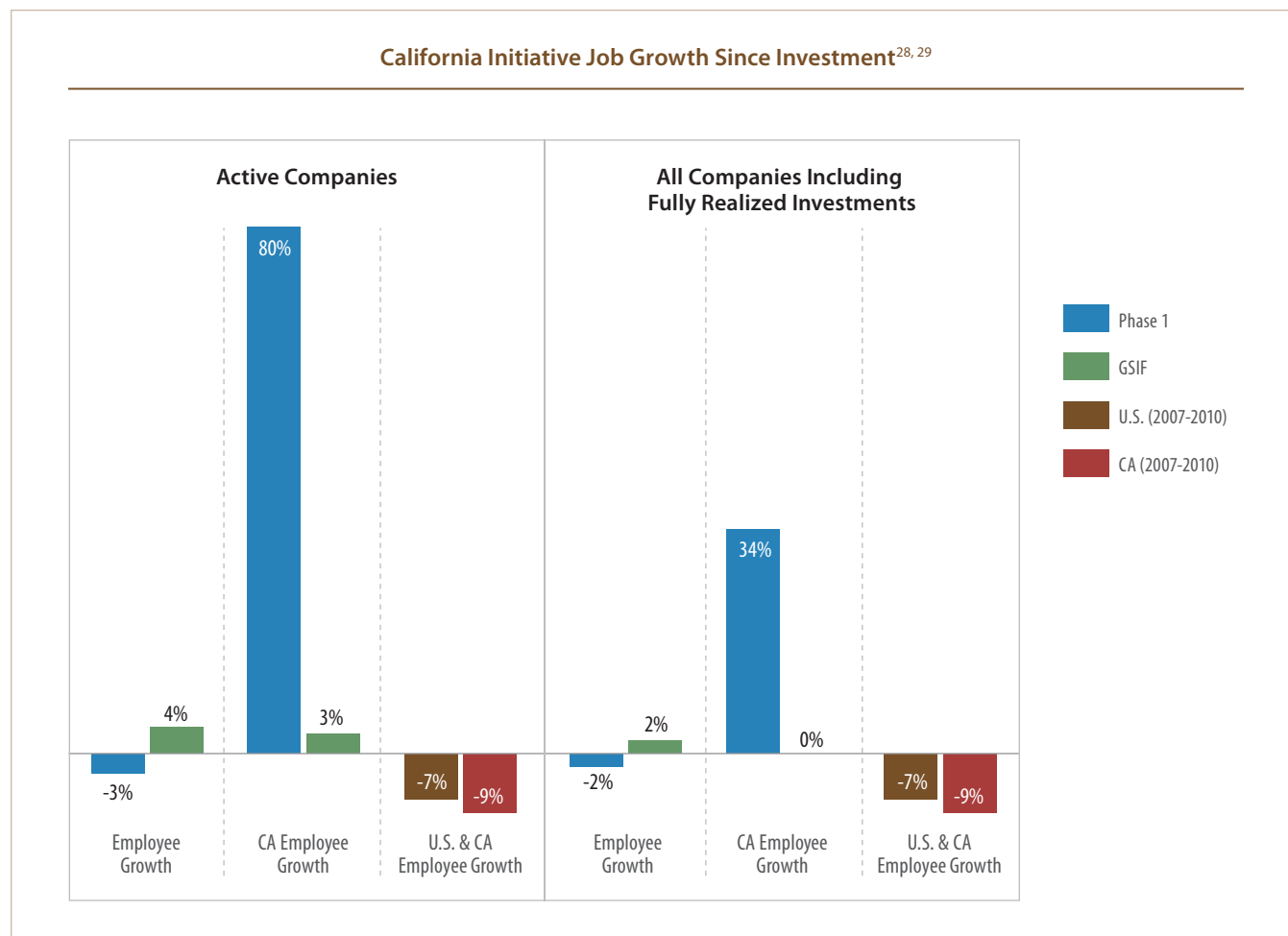
	Employees		CA Employees		Total Employees percent growth ²²	CA Employees percent growth
	At Investment	At June 30, 2010	At Investment	At June 30, 2010		
Phase I – Active portfolio companies reporting as of June 30, 2010 (n=43)	12,588	12,170	1,276	2,299	-3%	80%
Phase I – All companies reporting, including fully realized investments (n=104)²⁴	53,645	52,799	5,510	7,386	-2%	34%
GSIF – Active portfolio companies reporting as of June 30, 2010 (n=98)	53,862	56,123	14,389	14,891	4%	3%
GSIF – All companies reporting, including fully realized investments (n=104)²⁵	57,013	57,967	15,992	16,035	2%	0%
Total CA Initiative – Active portfolio companies reporting as of June 30, 2010 (n=141)	66,450	68,293	15,665	17,190	3%	10%
Total CA Initiative – All companies ever reporting, including fully realized investments (n=208)²⁶	110,658	110,766	21,502	23,421	< 1%	9%

As a point of reference: Between June 2007 and June 2010 U.S. employment decreased 7 percent and California employment decreased 9 percent. Between June 2001 and June 2010 U.S. employment decreased 3 percent and California employment decreased 7 percent.²⁷

the employment growth of the United States and California, where jobs declined 7 percent and 9 percent, respectively, between 2007 and 2010.¹⁹ California employment at GSIF portfolio companies increased 3 percent from 14,389 workers at investment, to 14,891 on June 30, 2010, compared to overall job losses in California of 9 percent between 2007 and 2010.²⁰

During the 12 months from June 2009 to June 2010, employment in the United States and California decreased

0.4 percent and 1 percent, respectively.²¹ By comparison, at Phase I companies that participated in data collection efforts in both 2009 and 2010 (n=43), total employment decreased 2 percent while California employment increased 2 percent. GSIF companies that reported data in both 2009 and 2010 (n=60) have fared better than the broader economy; total employment increased 2 percent and California employment increased 5 percent.

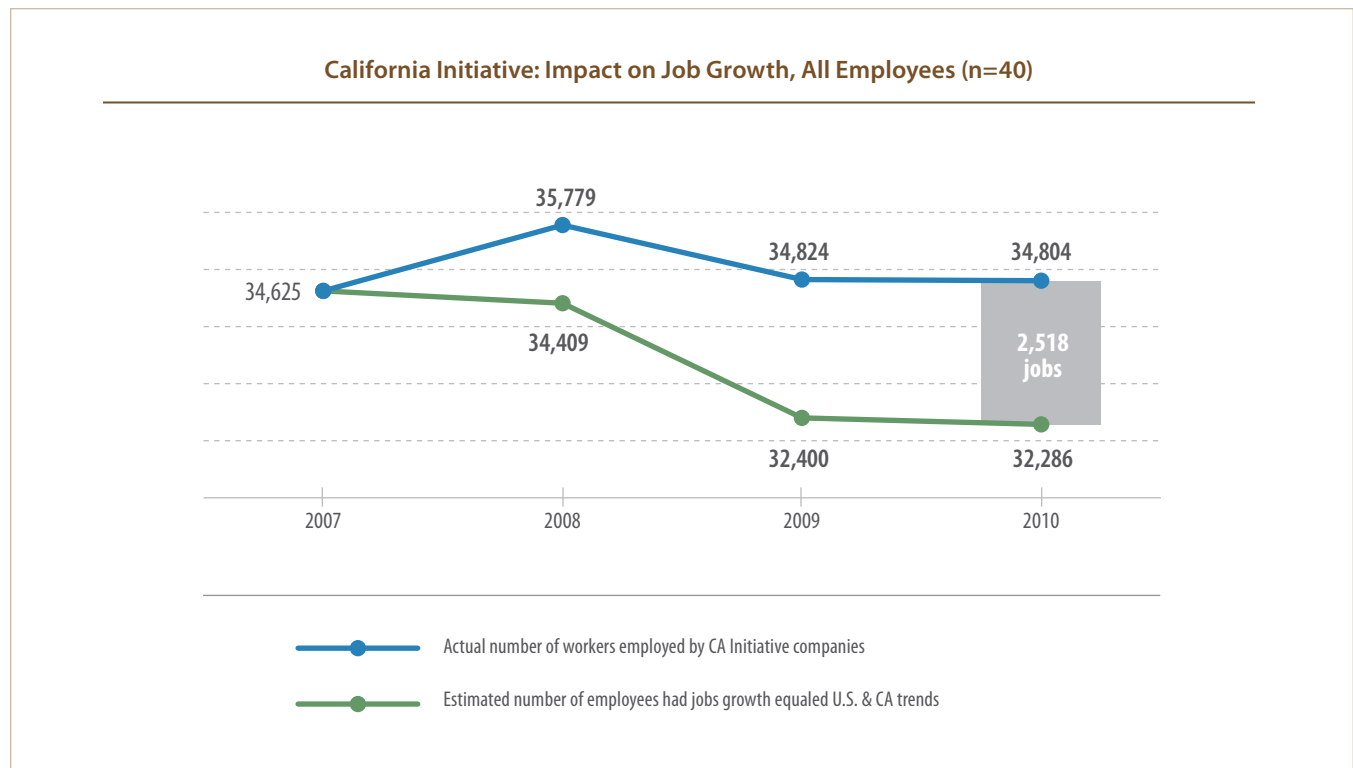


Job Preservation and Growth — California Initiative Employment Growth versus U.S. and California Employment Growth

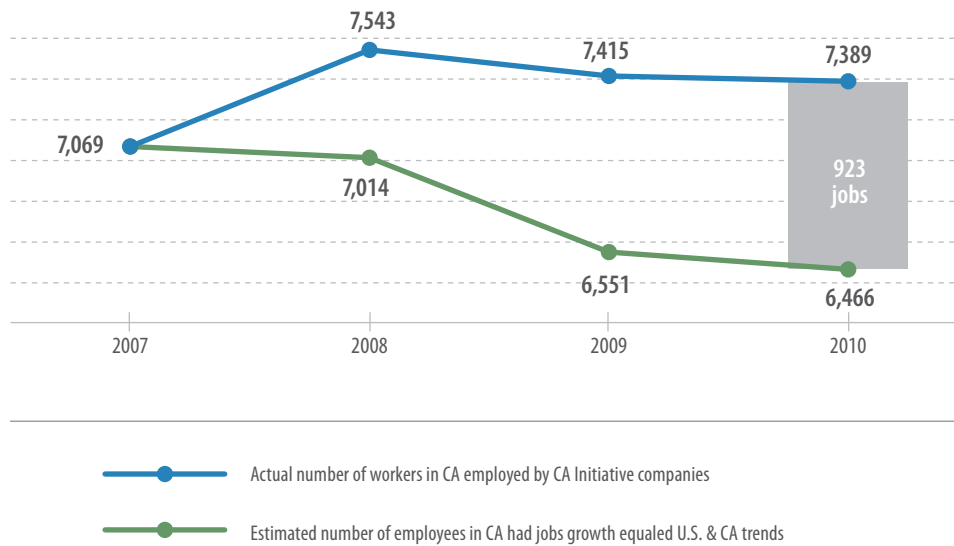
California Initiative employment growth has significantly exceeded employment growth in the United States and California, with California Initiative companies preserving and creating jobs during the worst of the economic downturn. Forty California Initiative portfolio companies have participated in four consecutive years of data collection from 2007 to 2010.³⁰ In 2007, these 40 companies had a total of 34,625 employees, including 7,069 in California. In 2010, they had 34,804 employees, including 7,389 in California, representing 1% overall job growth and 5% job growth in California.

The following charts show:

- Actual job growth of these 40 companies from 2007 to 2010, from 34,625 to 34,804 employees nationwide, and from 7,069 to 7,389 employees in California.
- Employee numbers at these 40 companies, had job growth been equivalent to the annual workforce trends in the overall United States and California private sectors.
- The number of jobs that would have been lost or would never have existed (2,518 nationwide and 923 in California) had these companies experienced the annual job growth rates of the overall U.S. and California private sectors.



California Initiative: Impact on Job Growth, California Employees (n=40)



Company Locations

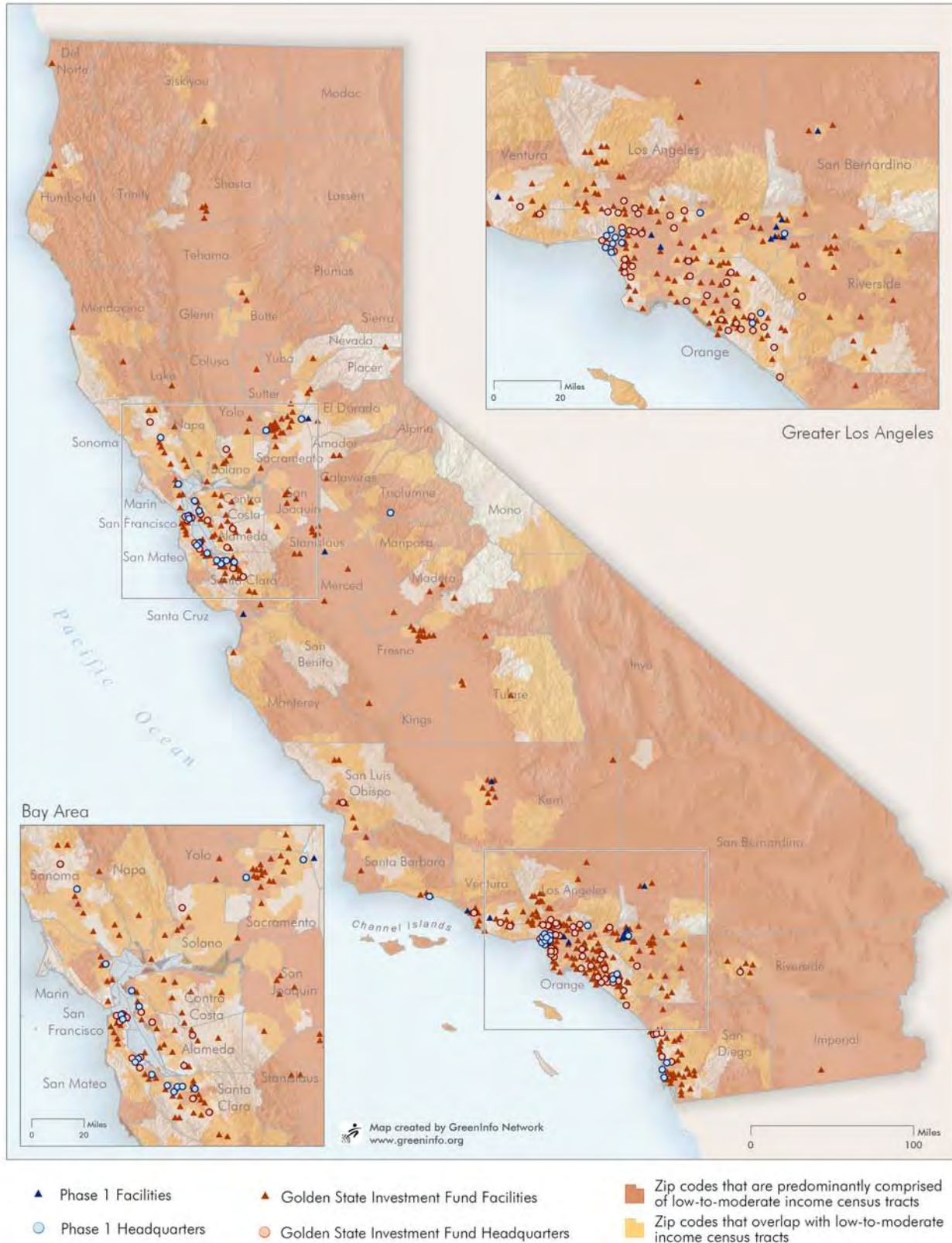
The 141 active California Initiative portfolio companies that contributed data in 2010 operate 2,572 locations,

including both headquarters and facilities; 77 percent of these companies are headquartered in California, as are 17 percent of facility locations (excluding headquarters).

Operating Locations, California Initiative Portfolio Companies

Active Portfolio Companies	Headquarters	Facilities	Total
Phase I	43	246	289
Phase I in California	33 (77%)	20 (8%)	53 (18%)
GSIF	98	2,185	2,283
GSIF in California	76 (78%)	398 (18%)	474 (21%)
Total California Initiative	141	2,431	2,572
Total California Initiative in California	109 (77%)	418 (17%)	527 (20%)

California Initiative Portfolio Company Locations

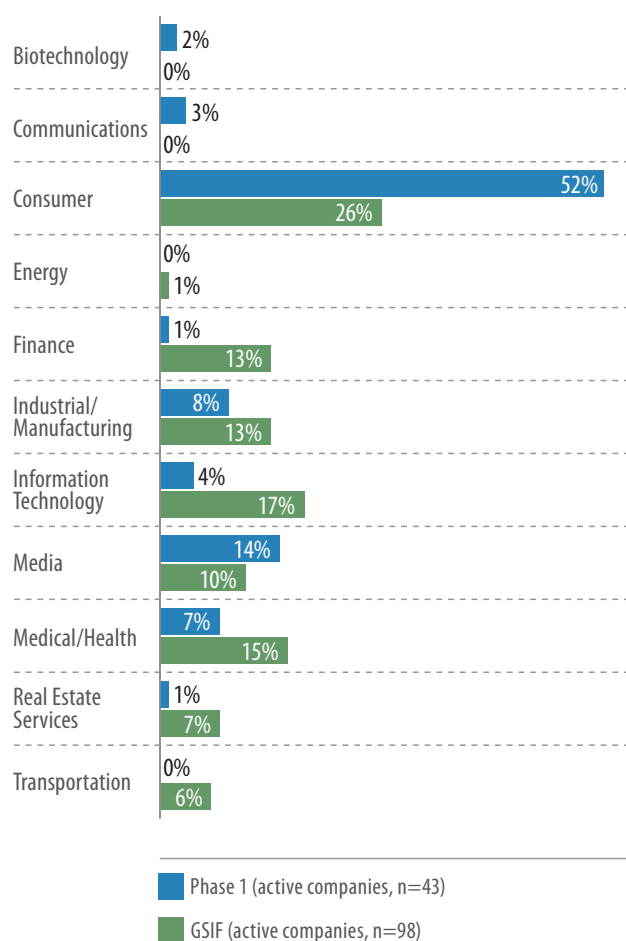


Portfolio Diversification

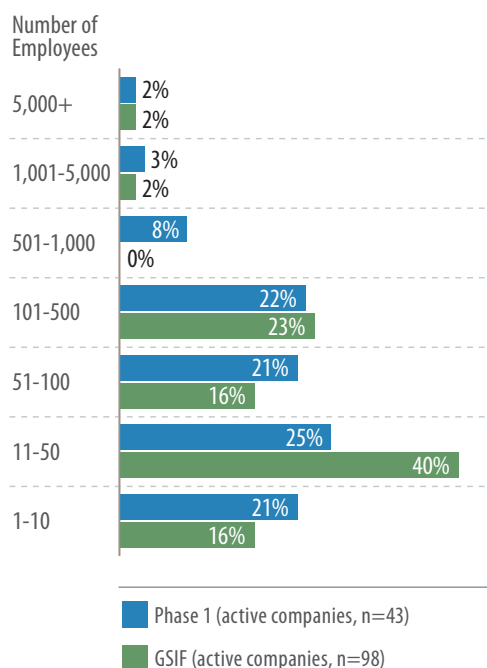
California Initiative portfolio companies operate across a variety of industries.

Portfolio companies range in size from fewer than 10 to more than 20,000 employees. The majority of portfolio companies (56 percent) employ between 11 and 150 workers.

Portfolio Diversification by Industry



California Initiative Active Portfolio Companies by Employee Size



Job Quality

At both Phase I and GSIF portfolio companies, job quality—medical coverage, retirement plans, and paid sick and vacation leave—compares favorably with job quality at companies in California and the United States. A higher percentage of Phase I companies offer employee benefits—including medical insurance, retirement plans, vacation, and sick leave—than comparable companies in the United States and California. One-hundred percent of Phase I companies provide medical insurance to at least some of their employees compared with 62 percent of U.S. companies,³¹ and 73 percent of California companies.³² Eighty-six percent of Phase I companies provide medical insurance to between 76 percent and 100 percent of their employees, whereas 71 percent of U.S.³³ and 78 percent of California employees are eligible for employer-based

medical insurance.³⁴ Ninety-eight percent of Phase I portfolio companies that provide medical insurance have at least some employees enrolled, and 74 percent have enrolled 76 percent to 100 percent of eligible employees.

Phase I companies also compare favorably to U.S. companies as a whole in the provision of retirement benefits, sick leave and paid vacation. Phase I companies collect benefits data by category, with each company reporting data in quartile ranges, as demonstrated in the table below.

GSIF portfolio companies report the absolute number of employees eligible for and enrolled in each benefit. The GSIF approach allows for more precise measurement of benefits and better comparisons to state and national data, providing a clearer picture of job quality for portfolio company employees. To more accurately represent job

Employee Benefits, Phase I Portfolio Companies

		N/A	1–25%	26–50%	51–75%	76–100%
Percent of Phase I Portfolio companies offering benefits to employees ³⁵	Eligible for medical insurance	0%	2%	5%	7%	86%
	Eligible employees enrolled in medical insurance	2%	5%	7%	12%	74%
	Eligible for retirement plan	26%	2%	2%	7%	62%
	Eligible for paid sick leave	17%	7%	0%	5%	71%
	Eligible for paid vacation	2%	5%	2%	5%	86%
	Eligible for stock	29%	5%	5%	12%	50%

quality for lower income workers—many of whom are employed in hourly wage jobs—GSIF portfolio companies also report data for salaried and non-salaried employees separately. Benefit eligibility rates of these portfolio companies compare favorably to the rates in both the United States and California. Enrollment rates, while similar for salaried employees, are lower for non-salaried employees in the GSIF portfolio.

Over the last several years, healthcare premium costs in California have continued to rise faster than inflation.³⁶ It is likely that health insurance enrollment rates for non-salaried employees are low because lower-income employees often cannot afford to pay the share of the premium not covered by the employer.

Job Quality Changes Since Investment

The influx of capital from GSIF investments has allowed many portfolio companies to make changes to employee benefit packages. Of the 104 GSIF companies that have ever reported data, including fully realized investments, 48 (46 percent) have made changes to their benefits packages since the time of investment. The infusion of capital provided by the GSIF investment has allowed companies to increase the benefits packages offered to employees. Twenty-six (54 percent) of the 48 companies improved employee benefits packages, while only eight companies (17 percent) decreased benefits.

Employee Benefits, GSIF Portfolio Companies

		GSIF Salaried	GSIF Non-salaried	U.S. ³⁷	CA ³⁸
Medical Coverage	Establishments offering	93%	93%	63%	70%
	Employees eligible for	95%	85%	71%	80%
	Employees enrolled in	75%	37%	52%	65%
Retirement Benefits	Establishments offering	78%	78%	47%	n/a
	Employees eligible for	87%	56%	67%	n/a
	Employees enrolled in	48%	14%	51%	n/a
Other Benefits	Employees eligible for disability benefits	83%	49%	n/a	n/a
	Employees eligible for paid vacation time	94%	75%	78%	n/a
	Employees eligible for paid sick leave	64%	28%	61%	n/a

Suppliers

As of June 30, 2010, California Initiative Phase I and GSIF companies had active supplier relationships³⁹ with more than 76,000 vendors. In addition to the boost to the economy provided directly by California Initiative portfolio companies, 22,000 other California businesses (29 percent of all Phase I and GSIF suppliers) have indirectly benefited from this capital investment.

Patents

The number of patents granted is an indicator of innovation, which often precedes job growth at a company. GSIF portfolio companies report the number of patents granted to them annually. Eight new patents were granted to six portfolio companies between July 1, 2009, and June 30, 2010. GSIF patent rates compare favorably to the rates in both the United States and California, where patent growth rates were 3.3 percent and 5.2 percent, respectively, between 2008 and 2009.⁴⁰

California Focus

To gain a more complete understanding of the impact California Initiative investments have in California, GSIF portfolio companies provide additional data on the approximate annual revenues they generate in California, in the rest of the United States, and outside the United States, as well as any plans to increase business activities in California in the next year.

More than one-third (38 percent) of all GSIF companies reported plans for expansion in California in the coming year. Of the companies that have expansion plans, 41 percent reported plans to open new operating locations in California, 49 percent reported plans to increase employment in California, and 24 percent report operating plans that are expected to result in increased sales in California.

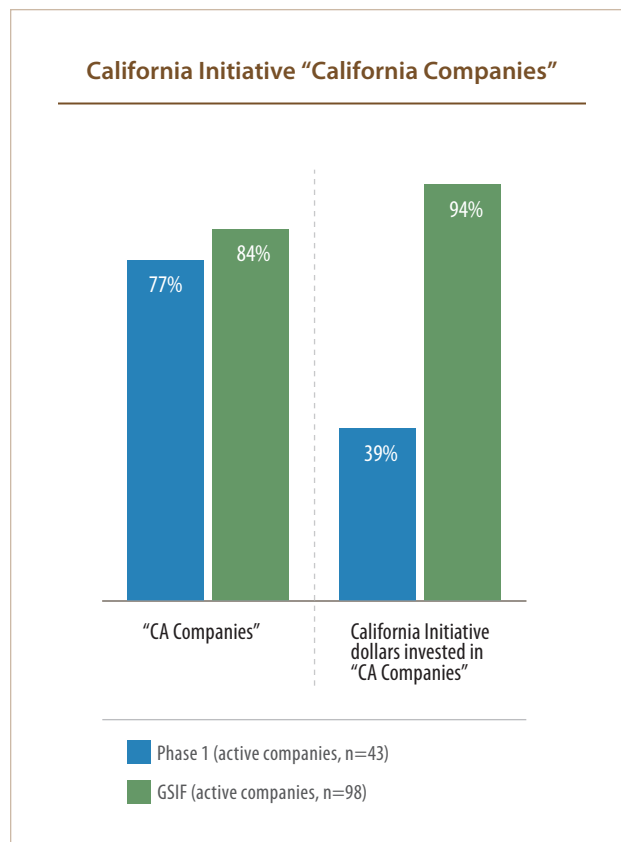
Total revenue generated by GSIF companies is approximately \$9.9 billion, with 20 percent or \$2 billion generated in California, 78 percent produced in the United States outside of California and 2 percent created internationally.⁴¹

California Initiative portfolio companies are considered “California Companies” if any of the following are true:⁴²

- Company headquarters are in California
- More employees reside in California than in any other state
- More facility locations are in California than in any other state

Based on this definition, 33 Phase I (77 percent) and 82 GSIF (84 percent) portfolio companies are considered “California Companies”, representing 74 percent of dollars (39 percent of Phase I dollars and 94 percent of GSIF dollars).

The California Initiative currently has close to \$361 million invested in 141 companies that provided data in 2010. Approximately \$269 million is invested in “California Companies.” As California Initiative dollars are part of a larger total investment in most companies, an additional \$542 million (\$98 million in Phase I and \$444 million in GSIF) in private equity capital from other investors is invested in active “California Companies.” In total, the California Initiative has facilitated the investment of \$812 million in “California Companies.” GSIF has committed approximately \$188 million to 14 co-investment deals supporting an additional \$7.98 billion in equity capital invested in “California Companies” by other investors.⁴³ In total, GSIF participated in co-investment deals that total approximately \$21.8 billion in equity and debt capital investments to date.



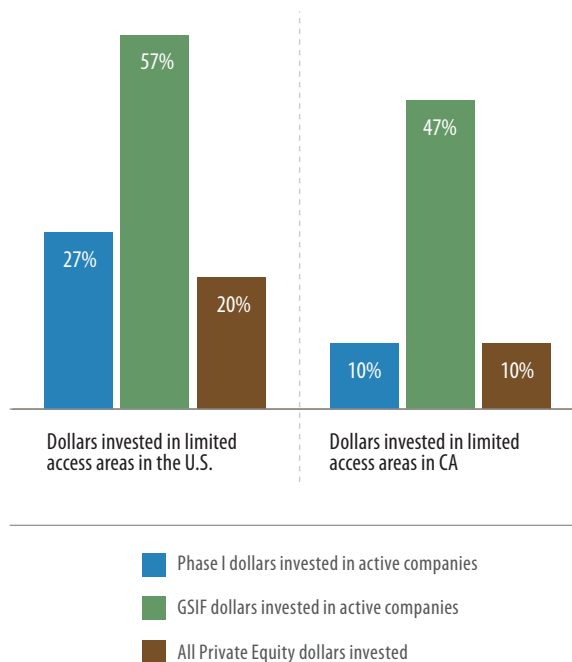
CalPERS California Initiative – Investing in Portfolio Companies in Underserved Markets

Portfolio Companies That Have Historically Had Limited Access to Equity Capital

To define areas that have historically had limited access to institutional equity capital, PCV analyzed data from Thomson Financial (now Thomson Reuters) that tracked private equity transactions between 2001 and 2007. This data shows that approximately 75 percent of private equity investment dollars were concentrated in 1,000 postal codes worldwide.⁴⁴ Most of these 1,000 postal codes (774 or 2 percent of all U.S. ZIP codes) are in the United States. For the purposes of this analysis, any company outside of these 774 United States ZIP codes—where more than 80 percent of all private equity in the United States and more than 90 percent of all private equity in California has been committed—is considered to be in an area that historically has had limited access to institutional equity capital.

Across California, only 25 percent of all companies receiving private equity investment are in areas that have historically had limited access to institutional equity capital. By contrast, 45 percent of all California Initiative companies—including more than 50 percent of GSIF companies—are in areas that have historically had limited access to institutional equity capital, indicating that the initiative's efforts to direct capital to these areas is working. In the Phase I portfolio, 30 percent of all active companies and 21 percent of active California companies are in areas that have historically had limited access to capital. Of the 104 Phase I companies that have contributed data at any point during the initiative, 34 companies (33 percent) are in areas that have historically had limited access to capital. Approximately 48 percent of all GSIF companies with California headquarters are headquartered in areas of the state that have historically had limited access to capital.

Percentage of Dollars Invested in Active California Initiative Companies Located in Areas That Have Historically Had Limited Access to Institutional Equity Capital



Portfolio Companies That Employ Workers Living In Economically Disadvantaged Areas

California Initiative portfolio companies benefit low-income and moderate-income (LMI) workers in two ways. First, these companies provide quality jobs to residents of LMI areas. Second, companies that are headquartered or operate facilities in LMI areas bring economic activity to distressed neighborhoods, indirectly supporting the creation of more jobs.

To assess the extent to which California Initiative companies support employment for residents of LMI areas, PCV examines areas where companies operate as well as where company employees live.⁴⁵

Phase I portfolio companies report the ZIP codes of operating locations in California. GSIF portfolio companies report the ZIP codes of all operating locations, not just those in California. In the Phase I portfolio, 44 percent of company headquarters and operating facilities are located in predominantly LMI areas.⁴⁶ GSIF portfolio companies have a total of 2,283⁴⁷ operating locations, including both facilities and headquarters; approximately 30 percent are in predominantly LMI areas.

Forty-eight percent of Phase I, and 47 percent of GSIF portfolio company employees in California live in predominantly low-income areas.⁴⁸

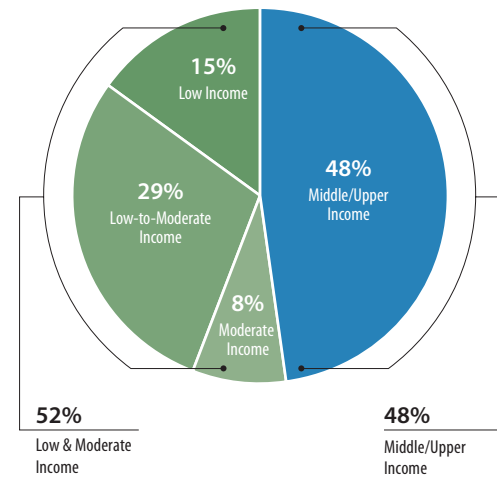
Employees Living, and Companies Located, in Low and Moderate Income Geographies

		Located in a ZIP Code that is Predominantly Comprised of LMI Census Tracts	Total LMI ⁴⁹
Phase I	Headquarters (n=43)	12 (29%)	40 (93%)
	California Headquarters	9 (21%)	33 (78%)
	California Facilities	16 (80%)	18 (90%)
	California Employees	1,102 (48%)	1,912 (84%)
GSIF	Headquarters (n=98)	25 (26%)	78 (80%)
	California Headquarters	19 (25%)	64 (85%)
	Facilities	636 (30%)	1,608 (76%)
	California Facilities	163 (41%)	340 (85%)
	Employees ⁵⁰	17,429 (33%)	39,119 (73%)
	California Employees	6,593 (47%)	11,950 (85%)

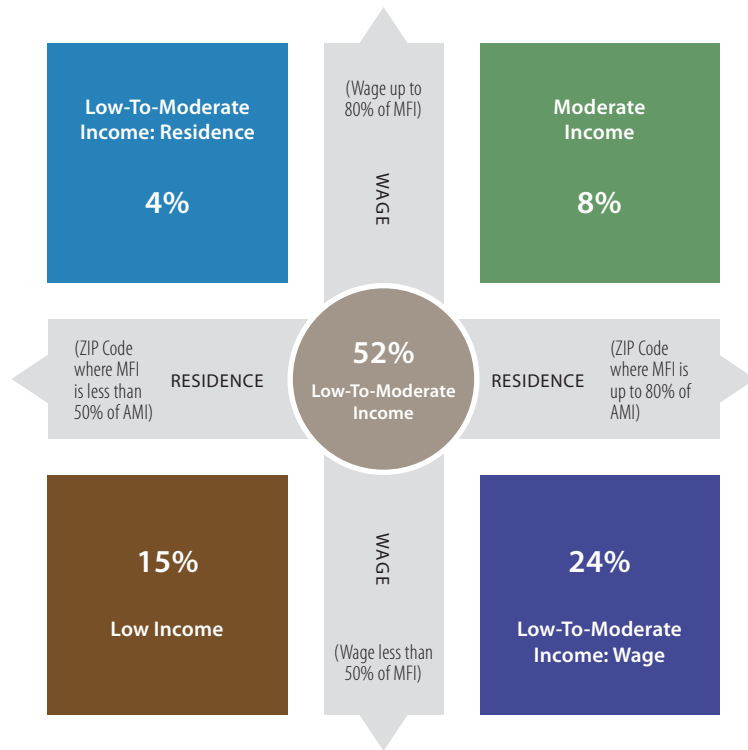
Not all low-income workers live in low-income areas, and not all individuals living in low-income areas earn a low-income wage. To precisely measure the economic status of employees at GSIF portfolio companies, PCV collected the wage and ZIP code of every employee.⁵¹ A worker's ZIP code of residence and wage combine to form a more complete picture of an individual's economic status. To assess the number of LMI workers at GSIF portfolio companies, PCV has created a system to classify individual workers:

- **Middle/Upper Income Workers:** GSIF portfolio company employees who earn a middle- or upper-income wage are considered middle/upper income employees. Similarly, employees who earn less than a middle-income wage but live in middle- or upper-income communities are also considered middle/upper-income workers.⁵² These workers likely are part of households with other sources of income. Based on the associated ZIP code and wage data collected for each employee, as of June 30, 2010, 48 percent of all GSIF portfolio company employees are classified middle/upper income.
- **Low-to-Moderate Income Workers:** The majority (52 percent) of GSIF portfolio company employees are low-to-moderate income workers for whom the California Initiative is providing economic opportunities. These employees both earn an LMI wage and live in an LMI area.⁵³ As a frame of reference, 35 percent of all employed individuals in the United States, and 38 percent of working Californians, live in LMI census tracts.⁵ For more in-depth analysis, PCV further divides the LMI employees into three categories: low-income, low-to-moderate income, and moderate-income.

Economic Status of GSIF Portfolio Employees



Economic Status of Low and Moderate Income GSIF Portfolio Company Employees⁵⁵



Low Income

- Employee wage is less than 50 percent of the Median Family Income (MFI) in the metropolitan statistical area of residence; and
- Employee residence ZIP Code overlaps with a census tract where the median income is less than 50 percent of the Area Median Income (AMI)

Low-To-Moderate Income: Residence

- Employee wage is between 50 percent and 80 percent of the MFI in the metropolitan statistical area of residence; and
- Employee residence ZIP Code overlaps with a census tract where the median income is less than 50 percent of the AMI

Low-To-Moderate Income: Wage

- Employee wage is less than 50 percent of the MFI in the metropolitan statistical area of residence; and
- Employee residence ZIP Code overlaps with a census tract where the median income is between 50 percent and 80 percent of the AMI

Moderate Income

- Employee wage is between 50 percent and 80 percent of the MFI in the metropolitan statistical area of residence; and
- Employee residence ZIP Code overlaps with a census tract where the median income is between 50 percent and 80 percent of the AMI

Portfolio Companies That Provide Employment Opportunities to Women and Minority Entrepreneurs and Managers

The third ancillary benefit assessed for the California Initiative is the extent to which portfolio companies provide employment opportunities to women and minority entrepreneurs and managers. By tracking the number of women and minority entrepreneurs, CalPERS can better understand the role the California Initiative portfolio companies play in the training, professional development, and advancement of these populations.

When private equity dollars are invested in a company, ownership often shifts from individuals to a fund, or group of funds. Prior to investment, company owners are commonly C-level officers. Accordingly, to better understand the proportion of women and minority entrepreneurs at portfolio companies, PCV uses officers (e.g., Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer) and key managers as a proxy.

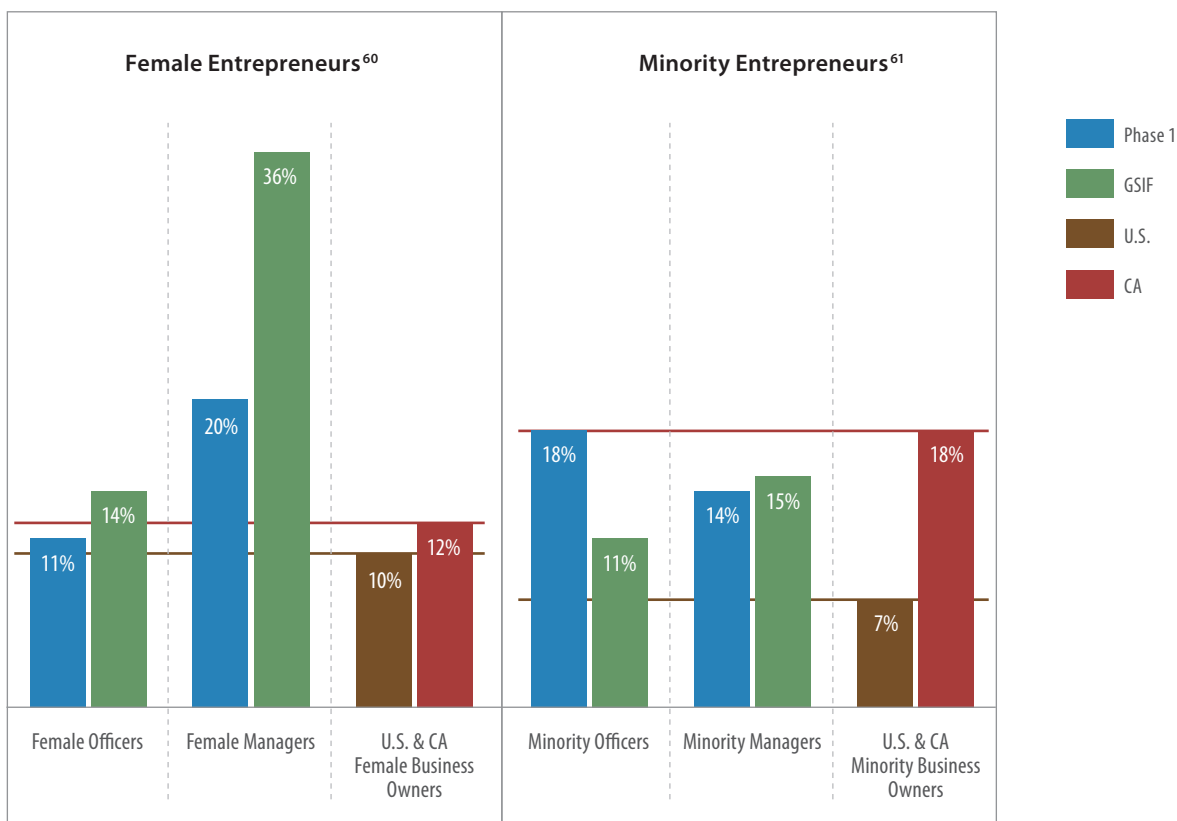
The 141 active California Initiative portfolio companies employ a total of 545 officers (an average of four officers per company), 12 percent of whom are minorities and another 13 percent of whom are female. Forty-two percent of California Initiative investment dollars are committed to 40 companies with at least one female officer, suggesting that women have substantial input into the management and growth of these companies. Similarly, 61 percent of California Initiative investment dollars are committed to 45 companies that have at least one minority officer.

The following table and graphs show a breakdown of California Initiative portfolio company officers by gender and ethnicity, as well as the breakdown of California Initiative investment dollars at these companies. Provided as a frame of reference are ownership diversity statistics for businesses with paid employees and \$1 million in revenue in California and the United States. Most portfolio companies receiving investment from the California Initiative met these criteria.

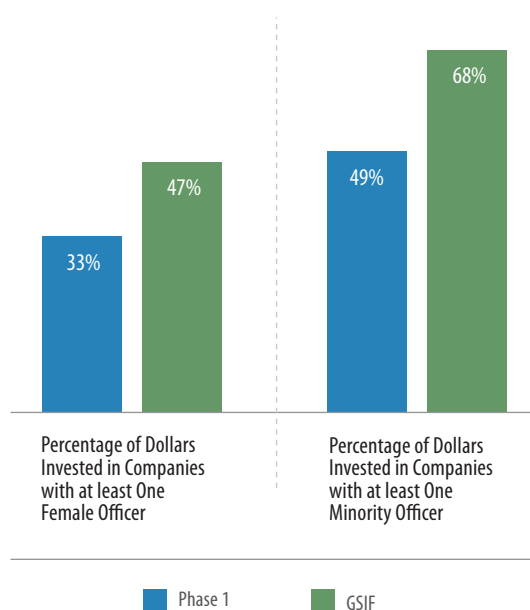
Minority and Female Officers and Key Managers, California Initiative Portfolio Companies

	Phase I		GSIF		CA Business Owners ⁵⁸	U.S. Business Owners ⁵⁹
	Officers	Key Managers	Officers ⁵⁶	Key Managers ⁵⁷		
Men	126 (89%)	260 (80%)	348 (86%)	822 (64%)	89%	90%
Women	15 (11%)	65 (20%)	56 (14%)	453 (36%)	11%	10%
Hispanic/Latino	4 (3%)	10 (3%)	8 (2%)	65 (5%)	5%	2%
African American	5 (4%)	10 (3%)	11 (3%)	27 (2%)	1%	1%
Asian/Pacific Islander	10 (7%)	20 (6%)	20 (5%)	77 (6%)	11%	4%
Other Minorities	6 (4%)	7 (2%)	4 (< 1%)	16 (1%)	1%	< 1%
White	116 (82%)	278 (86%)	361 (89%)	1,081 (85%)	95%	98%

Female and Minority Entrepreneurs



California Initiative Investments in Female and Minority Companies



CalPERS California Initiative – Summary Findings

- The California Initiative represents a substantial capital investment in California's economy, generating significant ancillary benefits, with close to 75 percent of capital allocated to "California Companies."
- The California Initiative has created and sustained jobs within California and the nation during one of the most challenging economic environments in U.S. history.
- Companies receiving investment through the California Initiative provide not only jobs but quality jobs to employees, with benefit levels significantly outpacing statewide and national levels.
- Areas that have historically not received institutional equity capital are receiving private equity investment under the California Initiative, with 45 percent of portfolio companies located in these underserved markets.
- Economically disadvantaged communities are significantly impacted by the California Initiative and its portfolio companies. The California Initiative employs a significant number of economically disadvantaged persons, with 52 percent of GSIF employees classified as LMI.
- Females and minorities provide leadership to California Initiative portfolio companies, with both female and minority representation outpacing national levels.

Appendix

California Initiative Summary Data

		Phase I	GSIF	California Initiative	CA	U.S.
Active Reporting Companies in 2010		45	101	146	n/a	n/a
Employment Opportunities	% Employee Growth Since Investment	-3%	4%	3%	-7%	-9%
	% California Employee Growth Since Investment	80%	3%	10%	-7%	n/a
Economically Disadvantaged Areas	% of California Headquarters in Predominately LMI Areas	21%	25%	26%	n/a	n/a
	% of California Facilities in Predominately LMI Areas	80%	41%	43%	n/a	n/a
	% of California Employees Living in Predominately LMI Areas	48%	47%	47%	n/a	n/a
Underserved Markets	% of Dollars Invested in Companies Located in Areas Underserved by Institutional Equity Capital	27%	57%	47%	10%	20%
Opportunities for Women and Minority Entrepreneurs and Managers	% of Dollars Invested in Companies with at least One Female Officer	33%	47%	42%	n/a	n/a
	% of Dollars Invested in Companies with at least One Minority Officer	49%	68%	61%	n/a	n/a

Endnotes

¹ CalPERS press release; February 19, 2008. "CalPERS California Initiative Program Deploys Private Equity Capital to Overlooked Markets."

² In addition to CalPERS increasing its commitment to GSIF, Hamilton Lane also committed an additional \$15 million in capital to GSIF.

³ This is a total of 146 (45 Phase I and 101 GSIF) companies and excludes the BACCVF portfolio companies. 141 of these 146 companies contributed data for this report.

⁴ Phase I portfolio companies do not report data on employees and facilities outside of California. The criteria for a Phase I portfolio company to be considered a "California Company" is at least one of the following:

1. HQ located in California
2. At least 33 percent of facilities located in California
3. At least 33 percent of employees located in California

⁵ This is out of a total of 43 active companies. Five of these companies are within a larger entity receiving investment. To determine each of these five companies invested dollar amounts the following assumption is made. Each company's investment amount is equivalent to the proportion of total employment each company represents of the larger entity receiving investment.

⁶ 82 companies represent 84 percent of all 98 GSIF companies that are active in 2010.

⁷ As of June 30, 2010; excludes the \$100 million committed to the Bank of America California Community Venture Fund.

⁸ Ibid.

⁹ Ibid.

¹⁰ Net new jobs is the total number of jobs today minus the number of jobs at investment.

¹¹ GSIF company employees only, residing in the United States, as of June 30, 2010. Includes all employees living in ZIP codes that overlap with low- and moderate- income census tracts. Phase I companies report ZIP codes for California employees only.

¹² GSIF company employees only, as of June 30, 2010. Phase I companies report eligibility by range.

¹³ Phase I portfolio companies only report the ZIP codes of California employees, and thus the analysis of LMI workers is limited to California employees. Phase I companies report a total of 2,299 California employees, but provided valid ZIP codes for 2,269 employees, a difference of 30 or 2 percent.

¹⁴ Beginning with GSIF, portfolio companies now provide both a wage and residence ZIP code for each employee, providing a more complete picture of workers' economic status. GSIF companies provided wage and ZIP code data for a total of 47,872 employees. However, only 45,720 of the total 47,872 (95 percent) wage and ZIP code data sets were valid.

¹⁵ U.S. companies used for comparison are those that have employees and at least \$1 million in revenues; this is similar to the size and makeup of most California Initiative portfolio companies.

¹⁶ This is a total of 143 (45 Phase I and 98 GSIF) companies and excludes the BACCVF portfolio companies. 141 of these 146 companies contributed data for this report.

¹⁷ Bureau of Labor Statistics. www.bls.gov/ces/ accessed 10.20.2010

¹⁸ 104 portfolio companies have taken part in data collection since the inception of the GSIF.

¹⁹ Bureau of Labor Statistics. www.bls.gov/ces/ accessed 10.20.2010

²⁰ Ibid.

²¹ Ibid.

²² Percentage growth in this chart is net employee growth.

²³ California employee growth at Phase I companies is noticeably higher than at GSIF companies. This exaggerated percentage is most likely due to two factors.

1. The initial number of Phase I company employees living in California is much lower than that in the GSIF portfolio
2. Phase I companies have had more time to grow and mature as investments with Phase I dollars began in 2005 while GSIF investments began two years later in 2007.

²⁴ For fully-realized investments, the data used for this analysis is the most recent data available, typically as of the June 30th prior to exit. The data for this analysis does not include all fully realized investments as some companies entered and exited without ever submitting survey data.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Bureau of Labor Statistics. www.bls.gov/ces/ accessed 10.20.2010

²⁸ California and U.S. employment data from Bureau of Labor Statistics. www.bls.gov/ces/ accessed 10.20.2010. California employee growth at Phase I companies is noticeably higher than at GSIF companies. This exaggerated percentage is most likely due to two factors.

1. The initial number of Phase I company employees living in California is much lower than that in the GSIF portfolio
2. Phase I companies have had more time to grow and mature as investments with Phase I dollars began in 2005 while GSIF investments began two years later in 2007.

²⁹ Ibid.

³⁰ Forty companies participated in four consecutive years of data collection from 2007-2010, including 36 Phase I and 4 GSIF companies. By focusing only on these companies in our counterfactual comparison, we are able to directly compare the California Initiative's history of job creation and preservation to companies that have not been recipients of CalPERS capital over the same period. The smaller sample size can be attributed to considerable activity in the California Initiative portfolio, with companies entering and exiting on an annual basis. The 40 companies are relatively representative of the entire portfolio, with job growth characteristics that are similar to those of the entire portfolio—suggesting that survivorship bias is unlikely to have inflated the data. In the table below, we compare annual job growth at the 40 companies to all companies within the portfolio that reported data in consecutive years.

		2007-08	2008-09	2009-10
40 Company Sample	Annual Employee Growth	3%	-3%	0%
	Annual CA Employee Growth	7%	-2%	0%
CA Initiative Portfolio	CA Initiative Portfolio Company Count	n=62	n=80	n=102
	Annual Employee Growth	3%	-4%	1%
	Annual CA Employee Growth	9%	-4%	5%

³¹ Bureau of Labor Statistics National Compensation Survey, March 2010. www.bls.gov/ncs/ebs/benefits/2010/

³² California Health Care Foundation California Employer Health Benefits Survey 2009. www.chcf.org/publications/2009/12/california-employer-health-benefits-survey

³³ Bureau of Labor Statistics National Compensation Survey, March 2010. www.bls.gov/ncs/ebs/benefits/2010/

³⁴ California Health Care Foundation California Employer Health Benefits Survey 2009. www.chcf.org/publications/2009/12/california-employer-health-benefits-survey

³⁵ Numbers do not add to 100 percent due to rounding differences.

³⁶ California Health Care Foundation California Employer Health Benefits Survey 2009. www.chcf.org/publications/2009/12/california-employer-health-benefits-survey

³⁷ U.S. benchmark data from the Bureau of Labor Statistics National Compensation Survey, March 2010. www.bls.gov/ncs/ebs/benefits/2010/. This data is for all employees, and does not separate out salaried vs. nonsalaried employees.

³⁸ California benchmarks from California Health Care Foundation California Employer Health Benefits Survey 2009. www.chcf.org/publications/2009/12/california-employer-health-benefits-survey. This data is for all employees, and does not separate out salaried vs. non-salaried employees.

³⁹ An "active supplier relationship" is defined as one where the company has made a purchase in the past year.

⁴⁰ U.S. Patent Office. www.uspto.gov/web/offices/ac/ido/oeip/taf/pat_tr09.htm. GSIF Patents per company grew 188 percent between 2009 and 2010.

⁴¹ The vast majority (83 percent) of companies reported on this metric, however, 17 (17 percent) companies did not report approximate revenue data, six of these companies provided only the percent of revenue generated in California.

⁴² Phase I portfolio companies do not report data on employees and facilities outside of California. The criteria for a Phase I portfolio company to be considered a "California Company" is at least one of the following:

1. HQ located in California
2. At least 33 percent of facilities located in California
3. At least 33 percent of employees located in California

⁴³ There are a total of 14 co-investments but one of the co-investments did not report data in 2010.

⁴⁴ Thomson Reuters. www.thomsonreuters.com/business_units/financial/

⁴⁵ Portfolio companies provide the ZIP code for each headquarter location and facility, as well as for each employee (In Phase I, portfolio companies reported ZIP codes for California employees and facilities only). While employee and facility locations are defined by ZIP codes, LMI areas are identified by census tracts. ZIP codes can consist of parts of many census tracts and census tracts can contain parts of several ZIP codes. To evaluate the extent to which California Initiative companies are supporting employment for residents of economically underserved areas, PCV made two distinctions:

- ZIP codes that overlap with LMI census tracts. These workers and facilities may or may not be located in a lower-income census tract, but they are likely located near, and in a position to contribute to, the LMI area (20 percent of U.S. ZIP codes fall into this category).
- ZIP codes that are predominantly (50 percent or more) comprised of LMI census tracts. These workers and facilities are likely located in LMI areas (34 percent of U.S. ZIP codes fall into this category).

A census tract is designated LMI if at least one of the following conditions holds true:

- For census tracts within metropolitan areas, the median income of the tract is at or below 80 percent of the metropolitan statistical area median. For census tracts outside of metropolitan areas, the median income of the tract is at or below 80 percent of the statewide, non-metropolitan area median income.
- At least 20 percent of the population lives in poverty
- The unemployment rate is at least 1.5 times the national average.

⁴⁶ Phase I companies report a total of 245 facilities, but only California ZIP codes are reported by Phase I companies, of which there are 20. All data referring to the LMI status of Phase I facilities deals only with these 20 locations.

⁴⁷ There are 2,185 total operating locations (excluding headquarters) in the GSIF profile, but valid ZIP codes are only available for 2,124 locations, a difference of 61 or 3 percent.

⁴⁸ Phase I portfolio companies only report the ZIP codes of California employees, and thus the analysis of LMI workers is limited to California employees. Phase I companies report a total of 2,299 California employees, but provided valid ZIP codes for 2,269 employees, a difference of 30 or 1 percent.

⁴⁹ This includes ZIP codes that both overlap with and are predominantly composed of LMI census tracts.

⁵⁰ Companies report 56,123 employees but only 53,694 U.S. ZIP codes. Companies report 14,891 employees in CA, but only 14,079 ZIP codes. All analysis has been conducted only on the reported ZIP codes.

⁵¹ To maintain employee confidentiality, PCV collected no identifying information.

⁵² These workers earn more than 80 percent of the median family income (MFI) for the metropolitan statistical area (MSA) they live in. Similarly, employees who earn 80 percent or less of the MFI for the MSA, but live in a ZIP code area that consists entirely of middle- and upper-income census tracts also are considered middle/upper-income employees

⁵³ These workers earn less than 80 percent of the MFI for the MSA of residence AND live in a ZIP code that overlaps a census tract where the median income is less 80 percent of the area median income.

⁵⁴ Based on 2000 U.S. census data.

⁵⁵ Economic Status of Low and Moderate Income GSIF Portfolio Company Employees percentages do not sum to 52 percent due to rounding differences.

⁵⁶ Officer and manager data was not provided by two companies. Percentages and totals are based on data from 96 companies that submitted gender and ethnicity data. Additionally, three companies provided officer data but did not specify gender or ethnicity. For nine managers gender data was reported but not ethnicity data. As such only 1,266 managers are counted for ethnicity, whereas there is a total of 1,275 managers.

⁵⁷ Ibid.

⁵⁸ CalPERS California Initiative companies report the number of women and minority officers and managers. The comparison set for the United States and California is businesses with \$1 million in revenue and paid employees that are at least 51 percent women and/or minority owned. This is the closest comparison possible for the diverse group of California Initiative companies. U.S. Census 2002 data was used because 2007 data will not be available until June 2011. The census allows respondents to identify an ethnicity (Hispanic/Latino) and multiple racial categories, thus, minority categories cannot be combined for an accurate estimate of total minority-owned businesses.

⁵⁹ Ibid.

⁶⁰ Because of differences in the way CalPERS and the U.S. Census collect race and ethnicity data, PCV has elected to use the most conservative estimates for comparison. Census participants can identify as Hispanic/Latino as well as any other race, whereas CalPERS respondents choose the one category with which they most identify. Based on U.S. Census data, between 7 percent and 18 percent of business owners in California and between 6 percent and 8 percent of U.S. business owners are minority. PCV has elected to use the highest possible percentage for comparison in both categories. This is most likely higher than the actual number.

⁶¹ Ibid.

BAML Capital Access Funds

In addition to investing in nine private equity funds, the California Initiative, working with BAML Capital Access Funds (CAF), has invested in a fund-of-funds, Banc of America California Community Venture Fund (BACCVF). As of June 30, 2010, BACCVF had invested in 15 funds, and these funds had invested in 162 portfolio companies.¹

Profile of BACCVF Funds and Portfolio Companies

Of the 15 funds that have received an investment from BACCVF, nine have an office in California. The remaining funds are projected to have a strong pipeline of California deals, based on their networks and investing history. As of June 30, 2010, 54 or 33 percent of the 162 companies in BACCVF funds' portfolios are headquartered in California.²

Providing capital to areas of California and the United States that have historically had limited access to institutional equity capital

CAF invests in well-run venture capital and private equity funds that invest in companies that are:

- located in or employ residents of low-to-moderate income geographies;
- owned or managed by ethnic minorities;²
- owned or managed by women;²
- focused on delivering products or services to an ethnically diverse customer base; or
- located in areas—urban or rural—with limited access to investment capital.

As of December 31, 2009, 70 percent of the companies funded by BACCVF met one or more of CAF's definitions of "underserved." Of the 15 funds that have received investment from BACCVF, 11 focus on low-to-moderate income areas or individuals. One of the funds is helping to capitalize financial institutions that provide banking services to low-income and/or ethnic minority consumers, and nine of the 15 funds focus on ethnic minority opportunities. Many of the funds also focus on one or more of the other components of CAF's definition of underserved company.

Of the companies in BACCVF funds' portfolios as of December 31, 2009, 17 or 16 percent are located in areas of the United States classified by the Initiative for a Competitive Inner City as Inner City, where venture capital has not traditionally been invested.³ Three or 3 percent of the companies are located in rural areas of the United States as defined by the U.S. Department of Agriculture.

According to analyses by Pacific Community Ventures, a significant number of companies in BACCVF funds' portfolios as of December 31, 2009, are located in areas that have historically had limited access to institutional equity capital.⁴ Eighty-six or over 50 percent of companies are located in areas of the U.S. with limited access to institutional equity capital. Twenty-four or 35 percent of California based companies are located in areas of California with limited access to institutional equity capital.

Employing workers living in economically disadvantaged areas

Of the companies in BACCVF funds' portfolios as of December 31, 2009, 45 or 43 percent of the companies are located in a low-to-moderate income area. Twenty-three or 22 percent are located in census tracts where 20 percent or more of the population lives in households with income below the federal poverty level. Twenty-nine or 28 percent of the companies are located in census tracts where the median income is at or below 80 percent of median income for the surrounding area. BACCVF funds' portfolio company employee residential ZIP codes were not available. As such, no direct analysis on the number of employees living in economically disadvantaged areas could be conducted.

Supporting women and minority entrepreneurs and managers

Nine of the 15 funds receiving investment through BACCVF focus on ethnic minority opportunities. Eleven of the funds have at least one ethnic minority partner; 10 of the funds have two or more ethnic minority partners. Six of the funds have at least one female partner.

Of the companies in BACCVF funds' portfolios as of December 31, 2009, 32 or 31 percent are majority owned or managed by minorities.¹ Forty or 38 percent of the companies are located in census tracts where more than half the population is an ethnic minority. Fifty-four or 52 percent had some minority ownership. Forty-seven or 45 percent of the companies had some women ownership.

Specific gender and ethnic information on the chief executive officer at BACCVF funds' portfolio companies is available for the companies that BACCVF funds had invested in as of year-end 2009. At 27 or 26 percent of these companies, the CEO is a minority, including eight companies where the CEO is African American, seven companies where the CEO is Hispanic, and eight companies where the CEO is Asian. Nine companies had female CEOs. These companies employed a total of 22,153 employees; 6,391 or 29 percent of these employees were ethnic minorities and 10,254 or 46 percent were women.

¹ Includes companies held by CAF portfolio funds that were subsequently exited; one company held by two funds.

² Owned refers to a 50 percent or higher ownership stake; managed refers to the CEO.

³ Inner Cities are defined as core urban areas that currently have higher unemployment and poverty rates and lower media income levels than surrounding Metropolitan Statistical Areas (MSA). Inner Cities have a 20 percent poverty rate or higher, or meet two of the following three criteria: poverty rate 1.5x or more than that of MSAs; median household income of one-half or less that of their MSAs; unemployment rate of 1.5x times or more than that of their MSAs.

⁴ Between 2001 and 2007, more than 80 percent of all private equity in the United States and more than 90 percent of all private equity in California was committed to an area made up of 774 U.S. ZIP codes. Using methodology developed by Pacific Community Ventures, a company is considered to be located in an area with historically limited access to institutional equity capital if it is located outside the top 1,000 U.S. ZIP codes receiving private equity.



California Public Employees' Retirement System

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For more information, please contact:

Pacific Community Ventures | www.pacificcommunityventures.org

Hamilton Lane | www.hamiltonlane.com

Golden State Investment Fund | www.gsif.com

